2006/2007 : Report 2

OFFICE OF THE

Auditor General of British Columbia

The 2010 Olympic and Paralympic Winter Games:

Review of Estimates Related to the Province's Commitments

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The Honourable Bill Barisoff
Speaker of the Legislative Assembly
Province of British Columbia
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Victoria, British Columbia
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Dear Sir:

I have the honour to transmit herewith to the Legislative Assembly of British Columbia my 2006/2007 Report 2: Review of estimates related to the Province's commitments for the 2010 Olympic and Paralympic Winter Games.

Arn van Iersel, CGA
Acting Auditor General

Victoria, British Columbia
September 2006

copy: Mr. E. George MacMinn, Q.C.
Clerk of the Legislative Assembly

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Acting Auditor General's Comments

Arn van Iersel, CGA
Acting Auditor General

The Winter Olympic and Paralympic Games being hosted by British Columbia in 2010 will place a significant demand on the financial resources of the Province. My office has therefore decided to regularly examine the financial implications of this large undertaking, to give the public and Members of the Legislative Assembly a better understanding of the cost of staging the Games and of the Province's oversight role.

Our first report, *Review of Estimates Related to Vancouver's Bid to Stage the 2010 Winter Olympic and Paralympic Winter Games*, was issued in January 2003. It focused on the Bid Estimates submitted to the International Olympic Committee (IOC), and on the Province's estimates of its Olympic-related costs. In that review, we raised concerns over the inflation assumptions used by the Bid Corporation for its venue capital cost estimates. Similarly, with regard to the Province's estimates, we raised concerns over foreign exchange rate changes and inflation assumptions used for medical and security costs. We were also concerned about the Province's contingency amount of $139 million – an amount we felt might be insufficient.

This report updates our first report and highlights the Province's management efforts to date in meeting its Games commitments. This is not a definitive report; it is based on what we see today (current to August 31, 2006). It is important to remember this is still an early stage in the Games budgeting process. Future estimates will change as more reliable information is obtained.

We intend to carry out additional reviews as new estimates are developed. We anticipate our next report will be issued in 2007, after the Vancouver Organizing Committee for the 2010 Olympic and Paralympic Winter Games (VANOC) has completed its fall 2006 business plan. That plan is expected to present a more refined projection of the revenues and expenses of the Games since it will involve lessons learned from the 2006 Olympic and Paralympic Winter Games held in Torino, Italy in February of this year.

We have not included in this report detailed information on VANOC's operating revenue and expense estimates because VANOC asked us not to publicly release that information at this time. VANOC is not subject to the *Freedom of Information and Protection of Privacy Act* and we cannot release that information without its approval. VANOC was concerned this level of disclosure

could result in possible commercial harm. We have however shown the Bid Book estimates alongside VANOC's current revenue and expense totals from its Version 1 Business Plan. We understand that VANOC will begin to publicly release its budget information after its Board has approved its Version 2 Business Plan.

We believe that our findings will help British Columbians understand the nature and scope of the financial undertaking the Province has taken on. In our view, these findings, along with those in our previous report, provide a clear baseline against which the Province's current and future spending on the Games can be assessed.

Overall we conclude that VANOC has prepared reasonable operating budget estimates for this stage in the Games. While there are risks inherent in the budget (namely broadcast revenues and domestic sponsorships), it is important to realize this is the first budget prepared by VANOC and the numbers will change as newer budgets are developed. Unlike venue capital plans which require very specific designs and result in more rigid cost estimates, operating estimates are typically softer numbers and continually get refined as more reliable information is obtained.

Our review of VANOC's venue capital cost estimates, however, indicates there are risks that may result in additional costs to the Province. These potential additional costs are set out and explained in the detailed report that follows.

Going forward, we feel there are some key points the Province should consider further:

- Possible un-funded Games costs
- Ensuring effective management and oversight
- Ensuring effective marketing
- Effective hedging
- Enhancing accountability and transparency

Possible un-funded Games costs

There are a number of legal routes through which, in our opinion, responsibility for games costs could be shifted to the Province. The Province has guaranteed to the IOC that it will cover any financial shortfall of VANOC. This cost would arise if VANOC is not successful in meeting its revenue or expense targets or does not build in sufficient contingencies to cover items it cannot control—such as inflation, exchange rate fluctuations, the state of the economy, world threats, or weather events.

Also, the Province has agreed to indemnify the City of Vancouver for any losses flowing from the City's signing the Host City Contract. In turn, the Host City Contract requires Vancouver to indemnify the IOC from any damages suffered by the IOC, including all costs, loss of revenue, and also damages that the IOC may have to pay to third parties (including but not limited to Olympic sponsors and broadcasters), resulting from acts or omissions of VANOC, or the City. The Host City Contract also makes the City, VANOC and the Canadian Olympic Committee jointly liable for all the obligations of VANOC related to staging the Games and places the financial responsibility for the Games with VANOC and the City.

We acknowledge that, legally, the guarantee is provided only to the IOC. In our opinion, however, the obligation of the Province to ensure the financial success of the Games has the potential to cause the guarantee to be subject to a much broader exposure. In the Province's view, the guarantee to the IOC is not as broad as we interpret, and should not be relied upon by parties other than the IOC. This report uses the broader interpretation of the guarantee, beyond the legal interpretation.

Negotiations are still underway on certain key venues, so the estimated costs for those venues are not certain. Also, since VANOC has transferred the construction risk for many of the venues to other parties, it does not control the actual construction process—a situation that increases the risk of time delays. Another risk is that many of the venues have not yet finished detailed design stages and as such, when remaining portions of the projects are tendered for construction, the actual costs could be higher than those currently estimated because of rapidly increasing material and labour costs. If the venue partners experience significant cost pressures and are

not able to complete their projects as agreed upon, there is a risk the Province will have to contribute more funding to VANOC to get the projects completed.

The Province is covering this risk of additional cost pressures by providing a contingency allocation within its $600 million Games budget. The unallocated amount of this contingency is currently $76 million. This amount is not supported by an analysis of the potential cost pressures that could be faced by the Province. Instead it is a balancing item in the Province's $600 million budget envelope. There are still many pressures facing the capital budget for the Games and risks inherent in the operating budget as well. There are also no current estimates prepared for some of the costs to be faced by the Province for items outside the Games operating and capital budgets, namely security and medical costs, that could put significant pressure on the contingency allocation. In our opinion, the contingency amount should be updated and based on a calculated assessment of the risks, instead of being a balancing figure in the total budget. We question whether the remaining $76 million is adequate.

Ensuring effective management and oversight

In our first report, we noted the need for strong oversight to manage the Province's Games costs.

VANOC has put together a strong team of experienced staff to manage its Games operating revenues and expenses, and venue capital cost estimates. We note that VANOC has recently re-organized its management of the venue capital program and has recruited experienced staff to manage the project going forward. This restructuring included the hiring of the former Deputy Minister of Transportation, who brings over 30 years of experience in large scale construction projects to VANOC in the new role of Executive Vice President of Construction.

The Province must equally have strong oversight and management of its risks and commitments going forward to 2010. There are still many risks inherent in the capital cost estimates and in the operating revenues and expense estimates that could lead to further cost pressures down the road. The Province has developed a risk management plan and risk register to monitor its Games risks. It has not yet approved VANOC's risk management plan, that was included in its Version 1 Business Plan.

Acting Auditor General's Comments

There is no coordinated responsibility over the total capital budget for the Games that was presented in the Bid Book estimates. As such, there is no centralized reporting to the public on the total capital costs of the Games and no single reporting entity managing the risks inherent in the capital estimates.

Currently VANOC is reporting on the venue costs (Federal and Provincial contributions only—see Exhibit 1), the Ministry of Economic Development is responsible for the Olympic Live Site grants, and the Ministry of Transportation and Highways is responsible for the Sea-to-Sky Highway upgrade costs.

In the Sydney 2000 Games, the government of New South Wales established an entity, the Olympic Coordination Authority, to centrally manage the capital budget for the Games. The same was done in Torino where the Agenzia Olympica Torino 2006 was established for the capital budget. With the 2010 Games, no one central agency is taking responsibility for managing these costs.

The Province must ensure it performs a very strong due diligence process going forward so it can ensure the Games will be delivered on time and on budget. While we agree the Province has now carried out a due diligence review over the capital estimates, we are concerned it took so long to do so. The Province's review of VANOC's venue capital estimates by Partnerships BC was submitted to the Provincial Secretariat in June 2006. (An independent review by Pacific Liaicon and Associates was submitted to the Federal Secretariat in May 2006). As noted above, VANOC's request for funding was submitted to both levels of government in September 2005, ten months before the Province's review was completed.

Taking a stronger lead in oversight would help decrease the possibility of further cost pressures on the capital budget from time delays in getting funding secured.

The Province should also take a more active role to ensure all venue agreements are completed as soon as possible; otherwise, the delays could lead to further cost pressures on the $979 million venue capital budget (refer to Exhibit 1).

Acting Auditor General's Comments

Effective marketing

We noted in our first report the need for strong and early marketing efforts if the Province hoped to achieve the forecasted $4 billion in economic benefits. And, the Province's original plans for the Games called for a highly coordinated, long-term international tourism marketing campaign beginning in 2003 to help achieve an estimated $4 billion in economic benefits. That campaign was to be built around the Games' host city selection, construction progress and the Games event itself.

Not envisioned in that study, however, was the fact that the IOC restricts international marketing of an Olympic games until the preceding Olympics are over. This means that the Province's main Games marketing efforts cannot begin until after the 2008 Beijing Olympic Games have concluded, six years after the start date proposed in the Province's study. This raises doubts as to whether those economic benefits originally forecasted can actually be achieved.

The Province will need to be creative and coordinated with its marketing efforts if it is to achieve the originally forecasted economic benefits.

The Ministry of Economic Development has prepared a business plan which includes several strategies designed to leverage the opportunity of hosting the Games. An example of one of the strategies is "in-market representation" where representatives will be locally engaged in select target markets in the United States, Europe and the Asia Pacific in order to undertake investment and trade promotion activities. Currently however, there is no independent forecast of any economic benefits that may be obtained from the strategies contained in that business plan.

Effective hedging

A significant amount of VANOC's revenues are stated in US dollars, to be received in the future. We were told in our first review that the Bid Corporation was planning to use hedging contracts to minimize the risk that these revenues might decrease as a result of changes in foreign exchange rates. Since the Province has guaranteed to the IOC to cover any financial shortfall of VANOC, and since it has the resources and expertise to provide for this risk, we would have expected the Province to implement a hedging

strategy soon after the Games were awarded for this manageable risk. However, as a result of not hedging US dollar revenues for broadcasting and international sponsorships at the time the Games were awarded, approximately $150 million less in revenue will be realized.

In our view, the Province needs to work with VANOC to implement a comprehensive hedging strategy for its foreign-source revenues.

Enhancing accountability and transparency

Given the Province has the ultimate responsibility for the financial outcome of the Games, we feel there should be regular and complete reporting of the total Games costs to the taxpayers. To date, the Province has only reported to taxpayers on the $600 million envelope it has established; however, there are many other Games-related costs that are not being reported as such by the Province.

The Province is also responsible for estimating, and paying for, most Olympic-related costs that are not otherwise assigned or shared by the various parties through agreements and negotiations. These costs include the provision of medical and security services during the Games and the availability of publicly owned facilities for Games venues. They also include capital costs listed in the Bid Book estimates for the Province's share of building the venues and the Province's cost to upgrade the Sea-to-Sky Highway. Our report shows the current estimates for these costs and notes the concerns the Province should bear in mind regarding risks still inherent in those estimates.

Other costs to the Province, currently undeterminable, include Provincial Crown corporation sponsorships, the Province's marketing efforts to promote the Games, and financial support after the Games for legacy assets.

In addition, there are potential, also currently undeterminable, costs to the Province related to its indemnification of the City of Vancouver and the Resort Municipality of Whistler provided in separate Participation Agreements. Those agreements, however, require Vancouver and Whistler to first seek instruction and approval from the Province before they act under the protection of the indemnification.

Reflecting the above, our current estimated minimum Games costs are as follows: (refer to exhibits 1 and 8 for details)

Games costs:	$4,338 million
Less: Games revenues:	($1,832 million)[1]
Net Games cost:	$2,506 million

These costs will be funded by: (refer to exhibits 1 and 8 for details)

Province's cost:	$1,500 million	$1,899 million
Local government cost:	$ 389 million	
UBC Property Trust cost:	$ 10 million	
Federal taxpayer cost:	$ 607 million	
Total taxpayer cost:	$2,506 million	

[1] Excludes revenues from government grants for Paralympic operating costs (total VANOC revenues of $1,872).

We recognize there will be lasting benefits to the Province from the legacy investments it is making in hosting the Games. The Province believes there will also be significant economic benefits from the Games that will offset its Games costs.

The Province needs to develop a more comprehensive definition of Olympic costs so that all Games-related costs can be reported.

Also, since BC taxpayers are ultimately responsible for any shortfall from the Games, we feel the Province should be encouraging VANOC to make its budget information a public document. We understand VANOC plans to make its budget open to the public after its Board has approved its next business plan.

Vancouver was chosen as the host city of the Games by the International Olympic Committee (IOC) on July 2, 2003. The Vancouver 2010 Bid Corporation, which organized Vancouver's bid, was then dissolved and the new entity, VANOC, was formed. VANOC is responsible for the planning, organizing, financing and staging of the Games (also referred to as the Organizing Committee for the Games—or, "OCOG").

Exhibit 1 shows the Bid Book amounts from 2002 that were presented to the IOC and current estimates of those costs. It also shows the costs being funded outside of the capital and operating budgets in the Bid Book estimates (refer also to Exhibit 8 at the end of the report).

Exhibit 1:

Consolidated Minimum Games Costs: ($ millions)

	Bid Book: Provincial and Federal Costs	Bid Book: Third Party Costs	Total Bid Book	Current Estimate: Provincial and Federal Costs	Current Estimate: Third Party Costs	Total Current Estimate
	(2002 $)	(2002 $)	(2002 $)	(as spent $)	(as spent $)	(as spent $)
Capital Budget						
GM Place	5	-	**5**	-	-	-
UBC Ice Hockey	34	5	**39**	37	10	**47**
Training Venues	7	-	**7**	5	15	**20**
BC Place	3	-	**3**	3	-	**3**
Hastings Park Skating	22	-	**22**	25	-	**25**
Hillcrest Curling	27	-	**27**	37	-	**37**
Speed Skating Oval[1]	60	5	**65**	61	117	**178**
Cypress Freestyle / Snowboard	10	-	**10**	15	-	**15**
Whistler Alpine	22	-	**22**	26	-	**26**
Whistler Nordic Centre	97	-	**97**	112	-	**112**
Whistler Sliding Centre	52	-	**52**	100	-	**100**
Vancouver Olympic Village[6]	30	137	**167**	30	160	**190**
Whistler Olympic Village / Whistler Athletes Centre[6]	45	53	**98**	53	97	**150**
Whistler Media Centre	3	-	**3**	3	-	**3**
Sledge Hockey	20	-	**20**	2	-	**2**
International Broadcast Centre[2]	15	-	**15**	-	-	**-**
Venue Planning	-	-	**-**	3	-	**3**
Sustainability	-	-	**-**	1	-	**1**
Contingency	18	-	**18**	67	-	**67**
Total Venues[5]	**470**	**200**	**670**	**580**	**399**	**979**
Olympic Live Site Grants	**40**	**-**	**40**	**40**	**-**	**40**
Sea-to-Sky Highway[3]	**600**	**-**	**600**	**775**	**-**	**775**
Total cost from Capital Budget: (A) =			**1,310**			**1,794**

Introduction

	Bid Book: Provincial and Federal Costs	Bid Book: Third Party Costs	Total Bid Book	Current Estimate: Provincial and Federal Costs	Current Estimate: Third Party Costs	Total Current Estimate
	(2002 $)	(2002 $)	(2002 $)	(as spent $)	(as spent $)	(as spent $)
Operating Budget						
Revenues (includes Paralympic operating grant)			1,354			1,872
Expenses			(1,354)			(1,799)
Surplus (Deficit)[5]			–			73
Payment of surplus			–			(73)
Total cost from Operating Budget: (B) = (paralympic grant)			40			40
Costs outside VANOC Budgets:	**Provincial**	**Federal**	**Total**	**Provincial**	**Federal**	**Total**
Essential Services	13	43	56	13	43	56
Security	87.5	87.5	175	87.5	87.5	175
2010 Games Operating Trust	55	55	110	55	55	110
Other	217	92	309	239	92	331
Total outside costs: (C) =	372.5	277.5	650	394.5	277.5	672
Total Minimum Taxpayer Cost:[7]			(A+B+C) = 2,000			2,506

Complied by the OAG from the Bid Book estimates and current forecasts of VANOC and other information.

Notes:

1 The oval for long-track speed skating was originally planned to be built at SFU, with a total estimated project cost of $65 million. The current forecast has long-track speed skating being held at the new Richmond Oval. The total project cost is estimated by the City of Richmond to be $178 million. The amount of $117 million in the table represents Richmond's spending on the facility to enable it to have lasting legacy benefits to the community over and above the cost of having just a speed skating surface ready for the Games.

2 The Bid Book envisioned a new International Broadcast Centre being built in Richmond for a cost of $15 million. Current forecasts include the international broadcasting function being housed in the new Vancouver Convention Centre. The Vancouver Convention Centre Expansion Project (VCCEP) is a Provincial entity that is being funded by the Provincial and Federal governments and is not considered to be a Games project.

The bid instructions from the IOC included the requirement for a guarantee committing to make available all sports and non-sports venues owned by the public authorities to the OCOG (VANOC) either at no cost or at a rental cost to be pre-approved by the IOC. To date we have not seen evidence of the pre-approval by the IOC of this rental arrangement. Until that pre-approval is obtained, we note that there is a potential cost to the operator of the VCCEP (and thus the Province) of $13 million representing the rent VANOC has agreed to pay.

3 The IOC required the Bid Book estimates to be done in 2002 dollars. The $470 million (2002 $) escalated to an "as-spent" basis is $510 million. The current estimate of $580 million is due to actual escalation being incurred at rates beyond those built into the Bid Book estimates, and to adjustments for scope changes and risk transfers. We are not able to estimate the amount of escalation built into the previous or current third-party capital contributions.

4 The Sea-to-Sky upgrade was included in the Bid Book as a capital cost of the Games and is solely a Provincial cost. The original estimate of $600 million for the Sea-to-Sky Highway upgrade was based on a model that assumed the Ministry of Transportation and Highways would design and build the upgrade project. In 2004 the Province decided to adopt a P3 model for the design, building, financing and operating of a portion of the highway upgrade instead of doing the complete project itself. The estimated total value of the Sea-to-Sky project is $1.983 billion, assuming 2% inflation and maximum performance payments. The estimated capital cost in the P3 model is $695 million for roadwork and $80 million for interest costs during construction (total of $775 million). The original $600 million estimate was for baseline improvements only, and did not include the additional highway improvements and accelerated rehabilitation costs (such as new bridges) that are included in the P3 concept or interest costs during construction. The Province has argued this upgrade would have been done regardless of the Games and as such it can be viewed as an accelerated cost. We have included this project as a Games cost since it was included in the capital budget presented to the IOC in the Bid Book and in our opinion is a necessary part of the staging of the Games. We also note it would not be possible to accurately determine the costs of acceleration of this project. The Province also maintains there will be benefits of the highway upgrade that will extend well beyond the Games and contribute to social and economic growth in the area.

5 The Province is responsible for covering any financial shortfall of the OCOG (VANOC) but does not share in any of the surplus. According to terms of the Multi-Party Agreement, the surplus is to be divided 20% to the IOC, 20% to the COC and 60% to the Amateur Sports Legacy Fund (managed by the 2010 Games operating Trust).

6 The costs incurred by Vancouver and whistler to build the Athlete's Villages are planned to be recovered through sales of social and market housing.

7

	millions
Provincial taxpayer cost - capital budget ($580/2 +40/2 +775):	$1,085.0
Provincial cost from operating budget: (paralympic grant)	20.0
Provincial cost - outside Bid Book budgets:	394.5
Total Provincial cost:	**1,499.5**
Other public sector costs (UBC Property Trust):	10.0
Local Government taxpayer cost:	389.0
Total BC taxpayer cost:	**1,898.5**
Federal taxpayer cost - capital budget ($580/2 +40/2):	310.0
Federal taxpayer cost from operating budget:	20.0
Federal taxpayer cost - outside Bid Book budgets:	277.5
Total Federal taxpayer cost:	**607.5**
Total minimum taxpayer cost:	**$2,506.0**

What the Games will entail

The 2010 Olympic Winter Games will be held from February 12 to 28, 2010. The sports will include alpine skiing, biathlon, bobsledding, cross-country skiing, curling, figure skating, freestyle skiing, ice hockey, luge, nordic combined, short track speed skating, skeleton, ski jumping, snowboarding and speed skating. Sports venues will be located in West Vancouver, Vancouver, Whistler and Richmond, with the main Olympic athletes' village being in Vancouver and the second village in Whistler. Opening and closing ceremonies will be staged at BC Place Stadium in Vancouver.

The 2010 Paralympic Winter Games will be held from March 12 to 21, 2010. The sports include alpine skiing, biathlon, cross-country skiing, ice sledge hockey and wheelchair curling. All events will be held in Whistler except the opening ceremonies, which will be staged at BC Place Stadium in Vancouver and ice sledge hockey which will be held at UBC.

Introduction

In the following comments in this section we outline the key contracts and agreements related to the Games and also the financial obligations imposed on the Province through those documents. We also provide background on the various parties involved.

The Bid City Agreement

The Olympic Charter requires the approval of a National Olympic Committee ("NOC") in support of a City's bid for the Games. The Canadian Olympic Association (now the Canadian Olympic Committee—"COC") approved the City of Vancouver to present the bid for the Games on its behalf to the IOC. This approval is contained in the Bid City Agreement, a document that outlines the roles and responsibilities the City accepts in order to gain approval of the NOC in becoming a candidate City for the Games.

The City of Vancouver approved entering into the agreement, subject to first entering into a legal agreement with the Province to indemnify the City for losses arising from the Bid City Agreement and Host City Contract. This indemnification was granted by the Province to the City on November 10, 1998 and is contained in the Participation Agreement between the City and the Province. On December 1, 1998 the Bid City Agreement was signed between the Canadian Olympic Association, the City of Vancouver and the Vancouver Whistler 2010 Bid Corporation ("Bid Corp"—name later changed to the Vancouver 2010 Bid Corporation to conform to IOC requirements).

Key conditions contained in the Bid City Agreement include:

- the City and the Bid Corp shall assume all commitments, liabilities, obligations or undertakings in relation to the bid and shall indemnify the NOC against liability for any losses and expenses not caused by the NOC (OCOG to replace Bid Corp if the Bid is successful); and
- Bid Corp agrees to assume and be liable for all commitments undertaken by the City concerning the bid and arising from the Bid City Agreement, and to indemnify the City against any liability for any losses and expenses arising therefrom.

VANOC: a profile

VANOC, the Vancouver Organizing Committee for the 2010 Olympic and Paralympic Winter Games, was incorporated on September 30, 003, to support and promote the development of sport in Canada by planning, organizing, financing and staging the Olympic and Paralympic Winter Games in 2010.

VANOC has a 20-member board of directors nominated by the Government of Canada (3 nominees), the Province of British Columbia (3 nominees), the City of Vancouver (2 nominees with Province approval), the Resort Municipality of Whistler (2 nominees with Province approval), the Canadian Olympic Committee (7 nominees), the Canadian Paralympic Committee (1 nominee) and local First Nations (1 nominee). The nominating parties may also agree to appoint one additional board member.

Participation Agreements

The Province has entered into Participation Agreements with the City of Vancouver (in 1998) and the Resort Municipality of Whistler (in 2002). Those agreements provide an indemnification by the Province to Vancouver and Whistler for any liability resulting directly from them entering into either the Bid City Agreement or the Host City Contract. The indemnification covers costs flowing from these two agreements where either party has acted pursuant to instructions from the Province.

The Olympic Charter

This key document governs the organization and the running of the Games and entrusts the responsibility of hosting the Games to a City. Section 34(3) requires senior governments of bid cities to submit a legally binding document to the IOC acknowledging they undertake and guarantee to comply with and respect the Olympic Charter. This commitment was provided by the Federal and Provincial governments to the IOC in the Bid documents. Further, section 37(1) of the Olympic Charter notes that the NOC, the OCOG and the City are jointly and severally liable for all commitments entered into individually or collectively concerning the organization of the Games—except for the financial responsibility, which is to be entirely assumed jointly between the OCOG and the City. The IOC has no financial responsibility for the organization or the staging of the Games.

The Candidature File

The Bid Books, the Multi-Party Agreement and other documents collectively form the Candidature File. The Bid Books contain the City's plans and budgets for the Games. The Guarantee File includes the covenants of Canada, British Columbia, Vancouver and Whistler regarding their obligations under the Olympic Charter.

The covenants provided by the Province to the IOC included a confirmation that the Province guarantees to respect the Olympic Charter and Host City Contract and acknowledges that all covenants made by Vancouver, the Bid Corp, or the COC to the IOC shall be binding on Vancouver, and that the Province will take those measures necessary to ensure Vancouver fulfills its obligations.

The Province also guarantees to the IOC to cover the potential financial shortfall of the OCOG, to provide those services that would normally be provided by the Province (e.g., health care), and to make available to the OCOG at no cost all venues that are owned or controlled by the Province (e.g., the expansion of the Vancouver Trade and Convention Centre).

Multi-Party Agreement

An integral part of the Candidature File is the Multi-Party Agreement signed in November, 2002 by the partners involved in Vancouver's bid—Canada, British Columbia, Vancouver, the Canadian Olympic Committee, the Canadian Paralympic Committee and the Bid Corporation (subsequently replaced by VANOC). This is a key agreement: it details the parties' respective contributions to the OCOG (VANOC) for the 2010 Olympic and Paralympic Winter Games, the conditions governing those contributions, and the principles of coordination among the parties. The agreement also requires the OCOG (VANOC) to present budgets to the provincial and federal governments for approval, and specifies the timing and format of those budgets. The first budget presented as per the Multi-Party Agreement was VANOC's Version 1 Business Plan, approved by the federal government in September 2005 but not yet (as of July 2006) approved by the Province.

VANOC and the government reporting entity

VANOC is considered to be independent of the provincial government. One of the results of this is that, in accordance with generally accepted accounting principles for government financial statements, the corporation's financial statements are not consolidated in the Summary Financial Statements of the Province. This means that although the Province provides funding for the capital venues and has also guaranteed the potential financial shortfall of VANOC to the International Olympic Committee, the underlying assets and liabilities of VANOC are not included as assets and liabilities of the provincial government. In the event the Province is called upon to honour the guarantee, that obligation would be included in the Province's Summary Financial Statements.

As auditor of the Province's Summary Financial Statements the Office of the Auditor General reviewed and approved of this accounting treatment. This Office periodically reviews the Province's accounting for its interest in VANOC to ensure that it remains in accordance with generally accepted accounting principles (GAAP).

Host City Contract

Vancouver, the IOC and the COC entered into the Host City Contract on July 2, 2003. That agreement details the IOC's principles for planning, organizing and staging the Games, entrusts the organization of the Games to Vancouver and the Canadian Olympic Committee, and requires them to form an organizing committee of the Games. In addition, the Host City Contract requires VANOC to become a party to the Contract, and it imposes joint financial responsibility for the Games on the City and VANOC. It also details the sharing of any surplus from the Games (20% going to the IOC, 20% to the Canadian Olympic Committee and 60% to the general benefit of sport in Canada).

The Host City Contract also requires Vancouver to indemnify the IOC from any damages suffered by the IOC resulting from acts or omissions of the City, VANOC or the COC including costs, loss of revenue, and damages that the IOC may have to pay to third parties (including, but not limited to, Olympic sponsors and broadcasters). This, combined with the Participation Agreement and the various covenants of the City in the Candidature File, could ultimately shift responsibility for the Games onto the Province.

The Canadian Olympic Committee (the "COC")

The COC is the National Olympic Committee for the Games, and the Olympic Charter, the Host City Contract and the Bid City Agreement give it a significant influence over the organization of the Games. The COC shares 20% of any surplus from the Games and receives a share of revenues generated from international and domestic sponsorships, merchandising and asset dispositions. The Joint Marketing Program agreement between VANOC and the COC establishes minimum marketing commissions of $73.5 million Cdn payable to the COC and maximum commissions payable of $110 million Cdn. VANOC has included a reasonable estimate for this commission in its operating budget for the Games.

The Paralympic Games

For the 2010 Games the Paralympic Games are controlled by the same governing agreements and hosting parties as the Olympic Games. The Host City Contract requires VANOC to also organize the Paralympic Games, in accordance with an agreement between the IOC and the International Paralympic Committee ("IPC") that is part of the Host City Contract. VANOC is obligated to pay the IPC $4 million US in return for marketing rights to the Paralympic Games and has included this amount in its operating budget for the Games. The Provincial and Federal governments have committed to providing $20 million each towards the operating costs of the Paralympic Games.

The Provincial Olympic Secretariat

In 2003, to provide the strategic leadership, coordination and oversight to ensure it meets its Games commitments, the Province established the British Columbia 2010 Olympic and Paralympic Winter Games Secretariat within the Ministry of Economic Development. The President/CEO of the Secretariat oversees VANOC's activities by co-chairing VANOC's Finance Committee. A representative of the Secretariat also attends all VANOC board meetings and chairs a bi-weekly meeting of VANOC and its government partners. As well, the Secretariat's Chief Financial Officer attends meetings of VANOC's Finance Committee and its Audit Committee.

The purpose of this current review is to update the public on the latest estimates of the Province's costs related to its Games commitments. We also set out to provide an update on those aspects we identified in our first report (*Review of Estimates Related to Vancouver's Bid to Stage the 2010 Winter Olympic and Paralympic Winter Games*, Report #6, 2002/2003) as being key to a successful Games:

- management of contingencies,
- focus on revenue and economic impacts, and
- exemplary management

Through enquiry, discussion and analysis, we reviewed the Province's Games costs and the current budget of VANOC. We examined the processes used to develop the current estimates, the assumptions underlying those estimates, and the processes used to identify and develop plans for managing the risks associated with the planning and staging of the Games. Our focus was on reviewing the Province's costs related to the Games, and we only reviewed VANOC's budget to understand the extent of the potential cost to the Province arising from that budget. We did not examine the day-to-day financial operations of VANOC.

Our review was performed in accordance with assurance standards recommended by the Canadian Institute of Chartered Accountants, and was carried out in stages from September 2005 to July 2006, and updated where necessary to August 31, 2006.

We interviewed staff of VANOC, the British Columbia 2010 Olympic and Paralympic Winter Games Secretariat, Tourism British Columbia, and the Ministry of Finance. We also interviewed staff of other key partners involved in the staging of the Games, such as the Resort Municipality of Whistler. In particular, we examined:

- VANOC's current estimates of its operating revenues and expenses, the capital costs of the Games venues, the assumptions underlying those estimates, and risks inherent in the estimates;
- the Province's estimates for its Games commitments—such as those for security, medical and Crown land grant costs—and the assumptions underlying those estimates; and
- the Province's oversight of its Games commitments.

Games Operating Budget

Since the Province is exposed to risks inherent in VANOC's budget, we examined the organizing committee's current business plan, focusing on changes made from the Bid Book estimates to the current estimates, the processes used to develop the current estimates, and on the assumptions underlying those estimates.

We reviewed VANOC's Version 1 Business Plan, dated June 2005, and concluded that the operating revenue and expense estimates are reasonable for this stage in the Games. We look forward, however, to reviewing the updated plan, to be released later this year.

We concluded that VANOC's approach to preparing the estimates was organized and made good use of the expertise of its staff and of information from the IOC and past Olympic games. VANOC's staff have had experience with Olympic Games and other large sporting events, such as the Pan-Am Games and Commonwealth Games, and with sports organizations such as Orca Bay Sports and Entertainment. Also, the key assumptions made by VANOC in developing its operating estimates are reasonable. Important to note is that this is the first plan that has been developed since the bid for the Games. Future plans will be more detailed and could involve additional costs and revenues.

The Version 1 Business Plan was approved by VANOC's board in July 2005 and submitted to the IOC, the Province and the federal government. In September 2005, the federal government approved the plan. The Province did not approve that plan and we understand it is awaiting the Version 2 Business Plan, to be received after VANOC's Board has approved it.

The Version 1 Business Plan used the work that went into preparing the Bid Estimates, updated to meet requirements in the Host City Contract, the Multi-Party Agreement, and to use experience gained from the Salt Lake City Games.

VANOC's Version 2 Business Plan will reflect the lessons learned from the 2006 Torino Olympics. The Version 2 plan will be a completely new budget—unlike the Version 1 plan, which was essentially an update of the Bid Estimates. VANOC expects to release a third version of the Business Plan in fall 2008.

VANOC's Revenue and Expense Estimates

VANOC has prepared its current plan on an "as-spent" basis —which means that if an item is expected to cost $1 million in 2009, it is shown in the current business plan as $1 million. This is a significant change from the Bid Estimates presentation, in which all amounts were required to be shown in 2002 dollars. Putting the numbers on an as-spent basis means they are escalated for inflation. To allow a meaningful comparison, we have adjusted the 2002 Bid Estimates to an as-spent basis in our exhibits.

Note that the 2002 Bid Book estimates for Games operating costs were $1,354 million. When the 2002 amount is put on an as-spent basis (adjusted for inflation) the amount is $1,558 million. VANOC's current estimate on an as-spent basis is $1,799 million. The reasons for the $445 million increase in costs are:

- escalation, noted above, of $204 million ($1,558 million less $1,354 million)
- budget increases of $241 million ($1,799 million less $1,558 million) to refine estimates for human resources, villages and accommodation, planning and non-competition venue delivery, and contingencies.

Revenues in the 2002 Bid Book estimates were also $1,354 million and escalate to an "as-spent" $1,558 million. VANOC's current estimates for revenues are $1,872 million. The reasons for the $518 million increase are:

- escalation, noted above, of $204 million ($1,558 million less $1,354 million)
- net increases totalling $314 million, from increased sponsorship (domestic and international) and broadcast revenues, offset by changes to ticket revenues and IOC/COC marketing commissions.

Our review indicates the current revenue and expense estimates developed by VANOC are reasonable for this stage in the Games. While there are risks inherent in the operating budget (namely broadcast revenues and domestic sponsorships), there is also a contingency set aside to address these operating risks and flexibility remains in the operating expense budgets for certain expense items (opening and closing ceremonies, for example).

Exhibit 2 shows the Bid Book estimates for the Games operating costs compared to current estimates (totals only for current estimates—see note 1 to the exhibit).

VANOC's Revenue and Expense Estimates

Exhibit 2:

Games operating budget – Bid Book and current estimates

OCOG Budget (Operating Budget) ($ millions)	Bid Book Estimates (2002 $)	Bid Book Estimates (as-spent basis)	VANOC Version 1 Business Plan July 2005 (as-spent basis)[1]
OCOG Revenues:			
IOC Contribution	540		
TOP Sponsorship	131		
Local Sponsorship	396		
Official Suppliers	58		
Ticket Sales	218		
Licensing Merchandise	35		
Coin Program	3		
Donations	20		
Disposal of Assets	10		
Federal Government Contribution (Paralympics)	20		
Provincial Government Contribution (Paralympics)	20		
Other	56		
IOC royalties / COC marketing Rights	(153)		
Net OCOG Revenues:	**1,354**	**1,558**	**1,872**
OCOG Expenditures:			
Sports Venues	163		
Olympic Village(s)	21		
MPC	10		
IBC	121		
Games Workforce	231		
Technology	209		
Telecommunications	62		
Internet	5		
Ceremonies and Culture	85		
Medical Services	5		
Catering	16		
Transport	87		
Security	2		
Paralympic Games	43		
Advertising and Promotion	52		
Administration	124		
Pre-Olympic Events and Coordination	18		
Other	100		
Total OCOG Expenditures	**1,354**	**1,558**	**1,799**
Surplus (Deficit)	**0**	**0**	**73**

Compiled by the OAG from the Bid Book estimates and information from VANOC

VANOC's Revenue and Expense Estimates

Notes:

[1] VANOC is not subject to the *Freedom of Information and Protection of Privacy Act* and does not wish its Business Plan details to be made public at this time. We have honoured that request. VANOC intends to make its budget public information after its Board has approved its next business plan.

[2] The surplus projected in VANOC's Version 1 Business Plan (approved by VANOC's Board in July, 2005) would be distributed as 20% to the IOC ($14.5 million), 20% to the COC ($14.5 million), and 60% to sports legacies ($44 million). The Province does not share in any surplus from the Games budget.

Venue Capital Budget

While we feel VANOC has done a good job in preparing venue capital estimates for this stage of planning for the Games, our review highlights several concerns we have regarding risks, still inherent in the venue capital estimates, that could lead to further cost pressures and the possibility the Province will be asked for more funding. It is important to note that the majority of the venues are still in the design stage. As firm bids come in and contracts are awarded these costs will get more precise and could result in revisions to the estimates.

Venue costs have significantly increased since the Bid Book estimates and the risk of escalation is still present

The capital cost of the venues were estimated in VANOC's June 2005 Version 1 Business Plan as $543 million. With approved venue capital contributions of $470 million (shared equally by the federal and provincial governments—see Exhibit 1), that left a capital deficit of $73 million. According to the Version 1 Business Plan, this was to be funded by operating revenues (even though this is not, in our opinion, in spirit with the Host City Contract or the Multi-Party Agreement). The Provincial government did not approve the business plan and instead asked VANOC for more current estimates of the venue capital costs, which VANOC provided in September 2005. The amount in those estimates is $580 million - increasing the capital deficit to $110 million. Funding for this $110 million capital deficit has recently been approved in principle by the Provincial and Federal governments.

To develop the $580 million estimate, VANOC created new estimates based on then current designs and negotiated deals, adjusted for March 2005 industry escalation rate forecasts. Where current designs and deals were not available, escalation of the amounts from the 2002 Bid Book were made.

VANOC's Revenue and Expense Estimates

Exhibit 3 shows the venue capital cost estimates of $470 million from the Bid Estimates (in 2002 dollars), those same capital amounts put on an as-spent basis ($510 million), the estimates from the June 2005 Business Plan, the estimates from the September 2005 update, and finally the most current estimates of June, 2006.

The main reason for the $110 million increase is that the original estimates were in 2002 dollars and that construction cost escalation has exceeded the rate of general inflation over the same period. This was not unexpected. We noted in our first report that many economic forecasters were suggesting a 2% rate of inflation and that such an increase would result in additional costs of $40 million in venue costs. We were concerned at the time that construction costs could escalate more rapidly than the 2% rate. Exhibit 4 shows that the industry cost escalation forecasts have exceeded the general rate of inflation and are predicted to continue. This indicates there is a risk the rates VANOC experiences when the projects are brought to tender may even be greater than those underlying the current $580 million estimate.

VANOC's Revenue and Expense Estimates

Exhibit 3:

VANOC's Venue Capital Costs Progression

($millions)

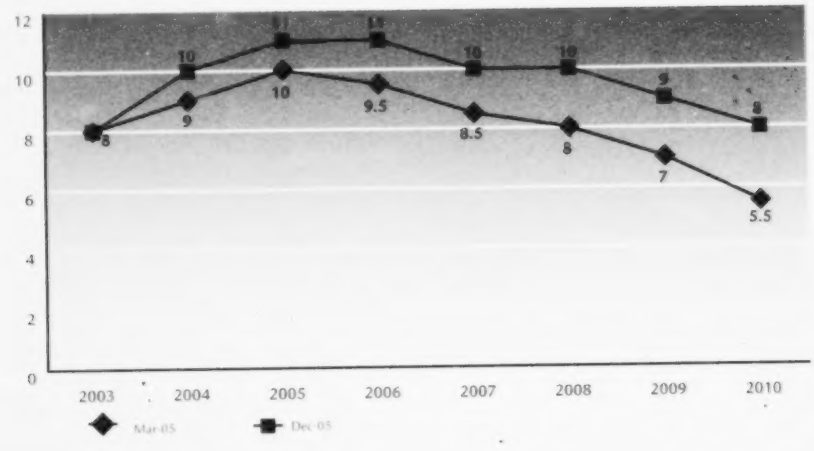
	Bid Budget (2002 $)	Escalated Bid Budget (as-spent $)	June 2005 VANOC Business Plan (as-spent $)	Sept 2005 VANOC Update (as-spent $)	June 2006 VANOC Update (as-spent $)
Whistler Nordic Centre	97	106	117	111	116
Whistler Sliding Centre	52	57	69	80	100
Richmond Speed Skating Oval	60	64	61	61	63
UBC Ice Hockey	34	38	36	38	38
Hillcrest Curling	27	30	35	37	37
Whistler Alpine	22	24	26	26	26
Hastings Park Skating	22	25	26	26	26
Cypress Freestyle and Snowboarding	10	11	14	14	14
GM Place	5	5	6	15	5
Whistler Athletes' Village and Athletes' Centre	45	48	46	53	53
Training Venues	7	9	6	5	5
Vancouver Athletes' Village	30	30	30	30	30
Paralympic Sledge Hockey	20	22	20	20	20[1]
International Broadcast Centre	15	16	–	–	–
Whistler Media Centre	3	3	3	3	3
BC Place	3	3	3	4	4
Venue Planning	–	–	1	3	3
Sustainability Commitments	–	–	–	2	1
Contingency	18	19	44	52	36[1]
Total	**470**	**510**	**543**	**580**	**580**

Source: Compiled by the Office of the Auditor General from the current capital cost estimates of VANOC and the Bid Estimates.

[1] VANOC has recently updated its estimates to increase the contingency to $67 million, mainly through changes to the estimates for the GM Place, Whistler Nordic Centre, UBC Ice Hockey, Richmond Oval, and the Paralympic Sledge Hockey venues. In the case of the Paralympic sledge hockey, the event has now been moved to UBC however VANOC must pay Whistler a $2 million default payment. The $18 million in capital cost savings, from the $20 million originally committed, has been temporarily added by VANOC to its contingency balance.

Exhibit 4:

Fiscal year construction cost escalation rates forecast



Source: Compiled by the OAG from BTY Group "Market Intelligence" reports.

VANOC has addressed that risk by commissioning its own study to determine the effects further escalation may have on its current $580 million estimate. That study indicates a further $7 to $14 million may be at risk, which would have to be absorbed within the remaining $67 million contingency. VANOC feels this is manageable.

We have reviewed the study that was done for VANOC and point out that it only addresses the projects that are being built by VANOC, not the projects being built by third parties (the Whistler Athlete's Village, Vancouver Athlete's Village and the Richmond Oval for example—refer to Exhibit 1).

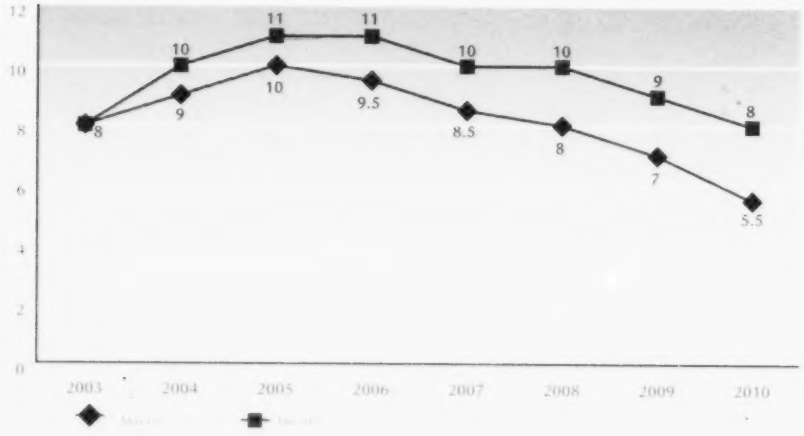
As an example, the current business plan for the Whistler Athlete's Village incorporates a 5% escalation factor over the next 4 years. The escalation report done for VANOC however shows escalation forecasts for Whistler at an average of 9%—a difference of 4% per year. This could add significant costs to the project for Whistler which would need to be covered either selling more market housing units or asking funding partners for more money.

Given the escalation risk still inherent in the total venue capital estimates, we note that this could put additional pressure on the Province's contingency.

VANOC's Revenue and Expense Estimates

Exhibit 4:

Fiscal year construction cost escalation rates forecast



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Given the escalation risk still inherent in the total venue capital estimates, we note that this could put additional pressure on the Province's contingency.

VANOC's Revenue and Expense Estimates

There is no agreement with the federal government on sharing venue cost increases with the Province

Although the capital costs in the Bid Book estimates are shared equally between the federal and provincial governments, there is no such sharing agreement for covering capital cost increases above that $470 million original estimate. VANOC's recent request for both levels of government to share in the additional $110 million in estimated costs was recently approved in principle by both levels of government. The Federal government has indicated it intends not to fund any further capital cost increases.

VANOC's efforts to transfer venue-associated risk may not be effective

One way VANOC has worked to keep its venue capital budget down is to have third parties build some of the venues and provide a grant toward the overall costs. This is known as "risk-transfer" and VANOC has used it for a number of venues, including the speed skating oval in Richmond and the athletes' villages in Whistler and Vancouver.

Nevertheless, VANOC still runs the risk that the venues will not be completed on time. For this reason, it has entered into venue agreements that require regular project management monitoring and include legal remedies for non-performance. However, if a venue partner is not able to live up to its end of the agreement, the costs will ultimately still fall on the Province since the venues will have to be completed—whatever the price in order that they be ready in time for the Games.

The proposed Richmond speed skating oval, courtesy of City of Richmond

Comparing capital cost estimates of different Games is difficult:

For the Torino 2006 Games the total venue capital budget (estimated in 2000) was $1,130 million while the total venue capital cost currently estimated for the 2010 Games is $979 million. On the surface the costs appear reasonably close, however, it is not meaningful to compare the numbers due to the different concepts utilized by Games organizers and the time lag between when the estimates were developed.

The time lag difference between Games can be adjusted for by either discounting the more current estimates or inflating the older estimates. Adjusting for differences in conceptual designs, however, can not be easily rectified. An example of the different concepts is media hosting. The spread-out nature of the Torino Games, and lack of available accommodation, necessitated many "media villages" to be built. For the 2010 Games, Vancouver and Whistler already have available accommodation (the costs of which are included in VANOC's operating budget) and Games are not as spread-out in nature so only two media centres are required.

Venue partners such as Richmond, Vancouver, Whistler, and UBC Properties Trust have budgets for their venues that are significantly in excess of the amounts being contributed by VANOC. In the case of Richmond, the total project cost of the speed skating oval is estimated to be $178 million, $117 million more than VANOC's contribution of $61 million. Richmond hopes to fund the additional costs mainly by selling or leasing city-owned properties and redirecting casino profits. The venue agreement between VANOC and Richmond is clear that costs above the $61 million contribution are the responsibility of Richmond, and that Richmond must deliver the project as planned or it will be considered to be in breach of its contract with VANOC.

The top portion of Exhibit 1 shows the current estimated total capital cost for the Games compared to the Bid Book estimates. This includes costs being incurred by VANOC (funded by the Provincial and Federal governments) and those being incurred by third parties. This total of $979 million is the more complete estimate of the capital cost for the venues.

There is a possibility that this risk transfer by VANOC could lead to time delays, and thus increased costs, since the construction process is not under the control of VANOC. VANOC has addressed this risk by having regular project management meetings with its venue partners to monitor progress. VANOC believes that, with regular project monitoring, its risk of the venue partners not delivering their venues on time and on budget will be sufficiently lessened. We believe, however, that there is still some risk involved and that this could lead to further cost increases for the Province down the road.

The Province is managing the risk of this potential cost pressure by implementing contract management provisions in the third party contracts to ensure there are controls in place (reporting controls, milestone completion dates, penalty clauses etc) to help reduce the risk that the projects do not get completed on time.

Design timelines are slipping

Construction projects normally go through three design stages—conceptual, preliminary, and detailed—with the accuracy of cost estimates improving at each stage. Most proposed Games venues are still essentially in various design stages. Some tendering has been done on a number of projects, such as the Athletes' Village in Vancouver, the Whistler Sliding Centre and Whistler Nordic Centre venues. However, until all the remaining bids for projects are received and the related contracts awarded, the cost estimates are still at risk of further increases.

Exhibit 5 shows the design and construction timelines for the Games venues. VANOC has fallen behind on the planned completion of designs for several key venues. Design delays can lead to increased costs because contractors have less time to complete projects. This increases the risk to VANOC, and ultimately to the Province, of construction costs increasing further.

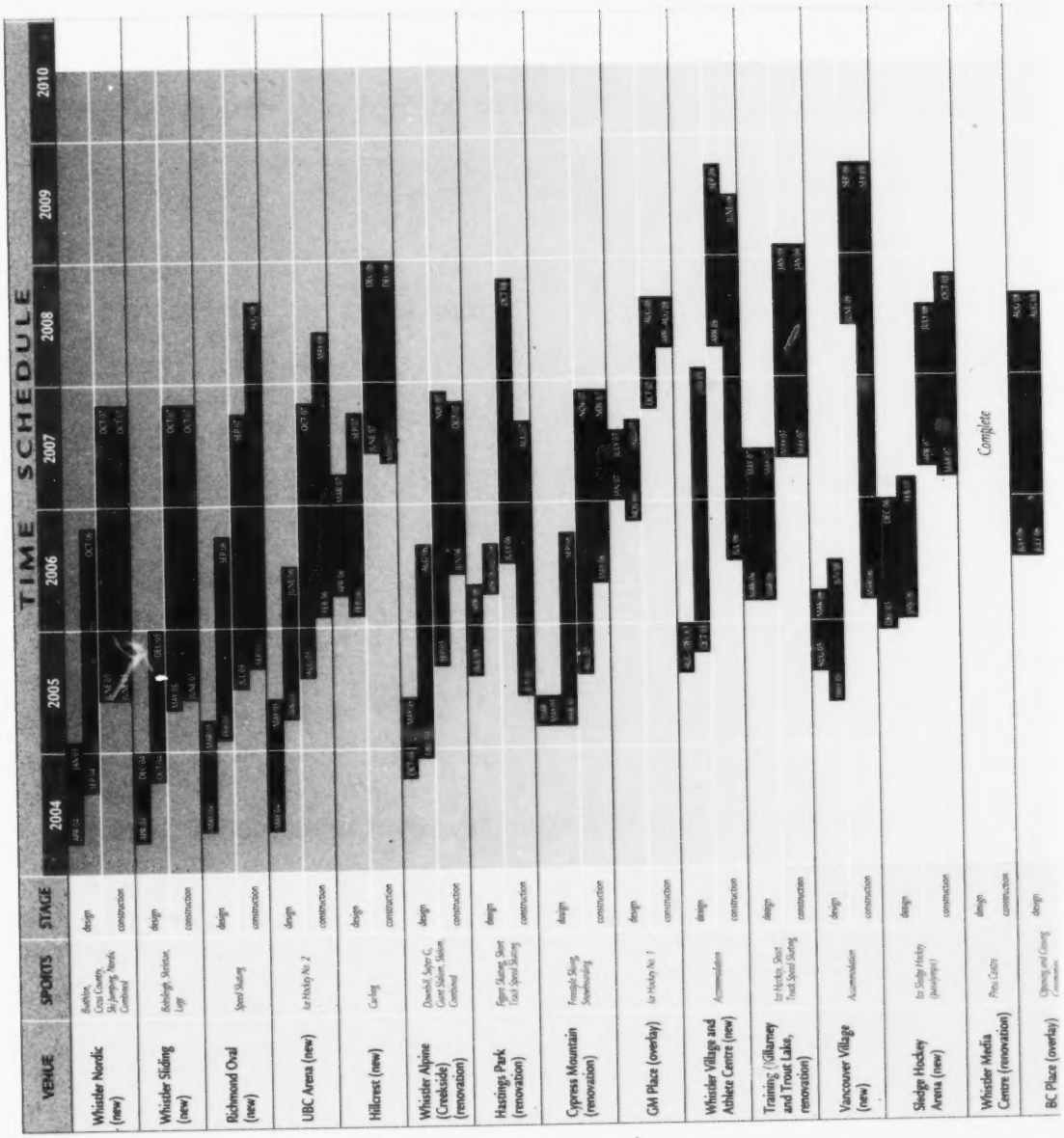
In the case of the Richmond Speed Skating Oval and UBC ice hockey venues, the original design schedules were planned for completion in March and May 2005, respectively. Exhibit 5 shows those timelines slipped to September and June of 2006. Consequently, the construction completion of the Richmond speed skating oval will be delayed by 11 months until August 2008—even though the City of Richmond has adopted a fast-track plan where construction begins before design ends. Start of construction of the UBC ice hockey venue, scheduled for August 2005, was delayed until February 2006. Design processes of Whistler Sliding Centre, Whistler Nordic Centre and Whistler Athlete's Village have been also delayed, but construction of those venues is still estimated as being completed according to the original schedule.

As discussed above, VANOC has attempted to reduce its exposure to increased costs from design and construction delays through several risk-transfer agreements. In those cases, VANOC is contributing only a portion of the total cost of the venues, and the developer is the one at risk for increased costs from design and construction delays. Still, the Province remains at risk for the venue costs if the developers are not able to complete the projects on time.

VANOC's Revenue and Expense Estimates

Exhibit 5:

VANOC venue completion timeline



Source: VANOC project management reports (IOC/Vancouver 2010 Venue and Infrastructure Construction Schedule,Report No. 4, December 2005)

VANOC's Revenue and Expense Estimates

Exhibit 5:

VANOC venue completion timeline

Source: VANOC, presentation to Vancouver City Council, [illegible] December 2003.

Office of the Auditor General of British Columbia, [illegible]

VANOC's Revenue and Expense Estimates

Exhibit 6 shows examples of VANOC's efforts to date to contain venue capital costs. These efforts have so far been successful in keeping VANOC's estimated venue capital costs to an amount only slightly larger than the as-spent Bid Book estimates amount.

Exhibit 6:

Examples of VANOC's efforts to reduce project costs

- **Risk transfer:** speed skating oval being built by the City of Richmond; ice hockey venues being built by the University of British Columbia; athletes' villages being built by Whistler and the City of Vancouver; training venues being built by the City of Vancouver. VANOC has transferred the construction risks on these venues to the third parties through agreements that limit VANOC's exposure to the amount of funding VANOC has provided.
- **Venue changes:** speed skating oval moved from Simon Fraser University to the City of Richmond; alpine venues consolidated on Whistler Mountain instead of Whistler and Blackcomb; paralympic sledge hockey moved to UBC.
- **Work scope reductions:** to ski jump facilities; to size of the Nordic day lodge; to the length of recreation trails in the Whistler Nordic Centre; to venue seating capacity (UBC ice hockey rink, Hillcrest curling venue); to scale of venue (Hastings Park figure skating and short track); and through successful negotiations to hold the ice hockey events on North American sized ice sheets.
- **Elimination of costs:** Whistler training venue and international broadcast centre moved to Vancouver Trade and Convention Centre (although this increases the cost to the Province, because this is a publicly-owned facility)

Source: Compiled by the Office of the Auditor General of British Columbia

Negotiations on amendments to certain key venue agreements are not yet finalized

Venue agreements outline the roles and responsibilities of the owner and VANOC regarding the capital project being completed for the Games. Negotiations for the Whistler Athlete's Village, UBC Ice Hockey, Hillcrest Curling, and GM Place have not yet been finalized. Until these negotiations are complete, there is a risk the related capital cost estimates could increase.

An agreement appears imminent between Whistler, the Province and VANOC regarding the Olympic Village. The tentative agreement will see the Province allow Whistler to sell seven lots from the 300 acres of donated Crown land to help pay for the Village (estimated to raise $4 million). Whistler plans to raise the balance of

the funds required through increased hotel taxes and from selling off 251 athlete housing units after the Games as restricted residential housing. VANOC (via Provincial and Federal contributions) is contributing $37.5 million for the Village and is spending a further $16 million on building the Whistler Athlete's Centre—a separate venue from the Whistler Athletes' Village that is being built by VANOC.

Regarding GM Place, the International Ice Hockey Federation has allowed VANOC to hold the ice hockey competition on North American sized ice sheets. This has resulted in VANOC being able to save approximately $9 million in its estimated venue capital costs reported in its June 2006 quarterly report (recently updated to a $14 million savings by VANOC). However, there is still no signed Venue Agreement with GM Place. Until there is a signed venue agreement for this facility, we note there is a risk the costs may be greater than those currently estimated (although this is likely to be an operating cost pressure instead of a capital one).

We recommend that the Province work with VANOC to help get all venue agreements in place as soon as possible; and closely monitor VANOC's progress in managing construction of the venues to ensure they can be delivered on time and on budget and do not result in the transfer of costs to the ultimate guarantor of venue completion—the Province.

The funding envelope presented by the Province provides only a partial picture of the total Games related costs for the Province and does not fully reflect its total financial undertaking related to the Games. For a complete picture we have presented Exhibit 8 which shows the Provincial funding envelope and other Provincial costs.

Of particular concern is that the Province has not yet established a definition of what constitutes an Olympic cost. As such, not all Provincial Games-related costs are being measured and managed by the Games Secretariat. We are also concerned that the estimates of the Province's medical and security costs have not been updated since the Bid Book estimates.

Medical and security costs not updated

The Province is required to cover the costs of basic medical services needed for the Games and to share in the security costs with Canada. Those costs ($13 million for medical and $87.5 million for security) were included in the 2002 Bid Book estimates. In our first report, we concluded that the process used to estimate the costs was reasonable, but that inflation should have been considered in the amount established. The Province has not yet updated the medical estimates and has not yet received updated security cost estimates from the RCMP. Subject to receiving the updated numbers from the RCMP, we are concerned the current estimate may be insufficient. The majority of these costs are personnel-related and the current public sector labour contracts suggest that increases should be built into the estimates.

The 2002 estimate for security costs was predicated on the total estimated costs of $175 million being shared equally by the provincial and federal governments. The sharing agreement was expected to have been in place in 2003, but it has not yet been signed. The security plan for the Games is the responsibility of the RCMP. A revised plan is underway however, until all the venue planning has been completed, the security plan can not be finalized by the RCMP. We also understand the cost sharing agreement is in its final stages and should be completed soon. The Province's position is that it will pay only half of the $175 million estimated cost and not share in any costs above that amount.

VANOC has increased its labour price estimates from the rates that were used in the Bid Book estimates for the contracted security guards it is responsible for covering in its budget, and has also adjusted its estimates for changes in the number of venues. Adjusting for those two factors alone could significantly increase the estimated total security costs from the $175 million originally forecasted. The Province currently maintains that it can deliver the required medical and security services for the Games at the amounts originally forecasted.

We recommend that the Province update its medical cost estimates and also update the security cost estimates as soon as the required information is available from the RCMP.

Olympic costs have not yet been defined by the Province

For the Province to manage its costs for the Games, the costs must first be defined and measured. The Province, however, has not yet developed a comprehensive definition of the Olympic costs. Currently, the Province reports only on those costs falling within the Province's "Funding Envelope" (the Province's announced $600 million spending total for the Games). The Funding Envelope does not include many expenditures that will or may be incurred in connection with the Games. Exhibit 8 shows our current estimate of the Province's total investment in the Games.

In the interest of full disclosure of the Province's Games-related costs we think a definition should be adopted by the Province. For the purposes of this review, we have defined Olympic-related costs to include: "decreases in economic resources by reduction of assets, incurrence of liabilities, or revenues forgone from Games-attributable actions (both direct and indirect) above expenditures to which the government reporting entity would have otherwise been committed". This definition is consistent with that used by the Government of New South Wales in the Sydney 2000 Games which had a definition of "costs directly related to, or incurred in meeting, the obligations of the Host City Contract".

We believe that the Province of British Columbia should also have a clear definition of Olympic costs—one that reflects the full extent of the Province's investment in the Games—so those costs can be managed effectively and reported completely.

We recommend that the Province:

- *establish a comprehensive definition of Olympic-related costs; and*
- *report regularly to the public on the status of those costs.*

Foreign exchange rate risk needs more attention

During the Bid process, the IOC instructed candidates to use US $400 million as an estimate of the amount of broadcast rights revenue and US $100 million as an estimate of the international sponsorships revenues to be received (with a caution that this was no guarantee of the amount that would ultimately be received). Review of the trends in broadcast revenues from past Games should have indicated to the Province that the revenue would be expected to grow at a rate greater than that being put forth by the IOC for budgeting purposes. This should have indicated the magnitude of the foreign exchange risk that would need to be managed.

We noted in our first report that since these revenues were to be paid in US dollars, exchange rate fluctuations could put actual dollar earnings at risk. For example, the US dollar weakening against the Canadian dollar would result in less revenue for the Games. We were told by management of the Bid Corporation that hedging (for instance, locking in exchange rates through a forward currency contract that would settle in 2010) was being considered as a way to mitigate that risk.

When the Games were awarded to Vancouver, the exchange rate could have been locked in at US $1 = $1.457, but steps to do that were not taken. As of the date of this report, the rate has fallen to US $1 = $1.125. Exhibit 7 shows the trend in the rates from the date of the Bid Estimates to present. This represents a loss for VANOC of approximately $150 million for the broadcasting and international sponsorship revenues. (Only about 60% of the international sponsorships revenue is received in cash; the rest is value-in-kind, which would not be impacted by the change in exchange rates.)

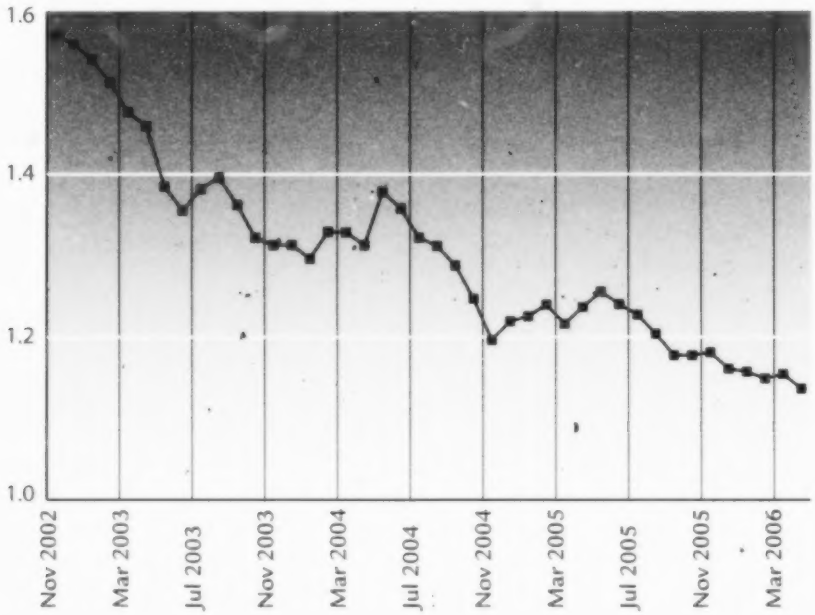
Since the Province is ultimately responsible for covering any deficit VANOC may incur, we feel its oversight role should have included implementing a hedging strategy early on. This was the practice adopted for the Sydney 2000 Games, where the Treasury Corporation of the New South Wales government entered into hedging contracts to cover the risk and provided a guarantee to the organizing committee on the exchange rates it would receive.

VANOC has recently entered into its own hedging contracts to mitigate some of the foreign exchange rate risk. It has provided cover for $240 million of its US revenues and for Euro 50 million. This locks in a portion of the foreign source revenues but a significant portion remain un-hedged.

We recommend that the Province work with VANOC to implement a comprehensive hedging strategy for its foreign-source revenues.

Exhibit 7:

Canadian to U.S. dollar exchange rate changes since the Bid Estimates



Source: Compiled by the Office of the Auditor General using data from the Bank of Canada website

Stronger oversight going forward is required

The Multi-Party Agreement requires VANOC to prepare a budget showing both capital and operating items for both the Olympic and Paralympic Games. Although VANOC's Version 1 Business Plan did contain a schedule of capital venue budgeted costs, the budget summary consolidated capital and operating items into one bottom-line amount. We were unable to determine if in the Province's due diligence work on VANOC's business plan, it had recognized the impact of consolidating the two amounts.

If VANOC had prepared its budget as required by the Multi-Party Agreement, it would have been clear that there was a capital venue deficit of $73 million being funded with an operating surplus of $73 million. This, however, does not appear to be consistent with the requirements of the Host City Contract or the Multi-Party Agreement.

Revised venue capital costs estimated by VANOC have since resulted in that capital deficit growing from $73 million in the June 2005 business plan to the $110 million in VANOC's more current estimates (the $110 million was recently approved in principle for funding by both the Provincial and Federal governments).

We are also concerned the Province has not done more to make the Games budget a public document. Since the Province is the ultimate guarantor of the Games, British Columbia taxpayers should have access to this information. While VANOC is not subject to the Freedom of Information and Protection of Privacy Act, the Province does have significant influence over VANOC and could encourage a more open reporting of the budget information. We understand that VANOC will begin to publicly release its budget information after its Board has approved its next business plan.

We recommend that the Province:

- *conduct a thorough due diligence review of VANOC's financial information in the future, and that it require VANOC to prepare its future business plans in accordance with the terms of the Multi-Party Agreement; and*
- *encourage VANOC to make its budget for the Games a public document.*

Coordinated marketing effort is needed

The Province's estimate of achieving $4 billion in economic benefits from the Games (detailed in the Province's 2002 study Economic Impact of the 2010 Winter Games) depended upon having a highly effective and coordinated long-term international tourism marketing campaign, beginning in 2003 and built around the Games' host city selection, construction progress and the Games event itself. We notice, however, that the marketing effort to date has been delayed and uncoordinated, with no central agency taking the lead. Also, given the IOC's restriction around the timing of marketing the Games, the Province's main Games-related marketing efforts cannot begin until after the 2008 Beijing Olympic Games, six years later than the start date proposed in the economic impact study. Not having a centralized agency take the lead, together with not being able to start marketing efforts early, means the maximum economic benefits forecasted by the Province back in 2002 may not be achieved.

The Province's plan to market the Games is also being curtailed by other circumstances beyond its control, chief among them VANOC's desire to protect the interests of its domestic sponsors. The Province is not regarded by VANOC as a domestic sponsor of the Games—even though the Province is the sole underwriter of the Games and is contributing an amount far in excess of VANOC's Tier 1 sponsors who are able to use the brand in their own advertising. An arrangement has been proposed by VANOC that will allow the Province to advertise using a specially designed logo that includes the words "Host Province" beneath the VANOC logo. While this allows for some form of branding to be achieved, it does not permit the Province to use any other form of association such as the Olympic Rings or the words "Olympic" in any of its commercial advertising. Also, even use of the special branding must first be approved by VANOC.

Despite the above issues, British Columbia has benefited from valuable media exposure at the recent Olympic Games. BC Canada House, a venue used to showcase British Columbia in Torino, recorded more than 100,000 visitors. This, along with the eight minutes allotted to VANOC in the closing ceremonies of the Torino Games, provided significant media exposure for the Games and British Columbia.

Lack of a coordinated marketing effort is, perhaps, the greater concern if the significantly smaller economic benefits that remain are to be salvaged. The marketing effort to date has been fragmented and not led by one central agency, such as the Province's own destination marketing organization, Tourism British Columbia. As visitor information requests regarding the Games increase in volume, the Province will need a coordinated and centralized effort to maximize its opportunity to showcase the region and accommodate information requests.

We recommend that the Province coordinate its marketing efforts for the Games to make better use of the marketing expertise it already has in place.

Post-Games legacy plans need to be considered

Some venues won't be self-supporting after the Games. Alberta's plan to deal with its legacy venues from the 1988 Winter Olympics was to set-up a fund to cover the anticipated losses. British Columbia has adopted the same approach. The Province and Canada have each contributed $55 million to the 2010 Games Operating Trust, a fund that will be used after the Games to offset losses the venues will incur. After the Games, the Whistler Sliding Centre, Whistler Nordic Centre and Whistler Athletes' Centre venues will be owned and operated by the Whistler Legacies Society (not yet established).

Under the Multi-Party Agreement, parties who, at their request, could join the society include the federal government, the Province, Vancouver, Whistler, the COC , the CPC, VANOC, the Lil'wat First Nation and the Squamish First Nation. The Province has committed in the Shared Legacies Agreement (a 2002 agreement between the Province, the Squamish and Lil'Wat Nations and the Vancouver 2010 Bid Corporation) that individual members of the society will not be responsible for any liability from the facilities. This means that any losses from those facilities in their post-Games operations (after drawing against the 2010 Games Operating Trust) will become a cost to the Province.

Business plans have been developed by VANOC to assess the future operating costs and revenues of the Whistler Sliding Centre and Whistler Nordic Centre legacy venues. The post-Games business plan for the Whistler Nordic Centre recommended add-on options such as additional trail development, a sizable

day lodge, and food and beverage concessions so that post-Games revenues could be maximized. However, in the latest cost estimates of VANOC, the total length of trails has been reduced from 75 kilometres to 26 kilometres and the area of the proposed Nordic day lodge has been reduced to reduce capital costs. This will affect the ability of that venue to generate the revenues anticipated in the post-Games business plan.

The cost to scope in these changes after the Games may be significantly greater than if they were included in the venue construction phase. VANOC has stated that its core deliverable is "Games-ready" facilities and that legacy investments will be made based on available funding. VANOC, by reducing its costs now, is increasing the Province's costs later.

We recommend that, as the Province will ultimately be responsible for the post-Games operations of the Whistler Sliding Centre, Whistler Nordic Centre and Whistler Athletes' Centre, it discuss with VANOC the current design plans for those venues to ensure they incorporate the features envisioned by post-Games business plans.

Exhibit 8:

Estimated minimum cost to the Province related to its Games commitments (unaudited)[a]

	($millions) 2002	($millions) 2006	($millions) 2006
	Bid Estimate	Estimates provided by the Province	Estimate by Office of the Auditor General
VANOC Operating Costs			
VANOC operating expenses to stage the Games	1,354		1,799
VANOC operating revenue to stage the Games	(1,354)		(1,872)
(surplus) deficit (note: surplus does not accrue to Province)	–		**(73)**
Net VANOC operating cost to be funded by the Province	**0**		**0**
Items in the Provincial Funding Envelope			
Capital cost of venues (discussed already in the report)	470		580
Olympic Live Sites program[1]	40		40
Total venue capital and Live Sites	510		620
Less: Approved federal contribution for venue capital	(235)		(235)
Less: Anticipated further federal contribution for venue capital	–		(55)
Less: Federal Olympic Live Sites program	(20)		(20)
Net capital costs to be funded by the Province	255	310	310

	($millions) 2002	($millions) 2006	($millions) 2006
	Bid Estimate	Estimates provided by the Province	Estimate by Office of the Auditor General
2010 Games Operating Trust (Province's share)[2]	55	55	55
Provincial costs for medical and security[3]	101	101	101
Paralympic operating grant[4]	20	20	20
First Nations legacies (non-cash)[5]	10	18	18
Whistler legacies (non-cash)[6]	10	10	10
Sports development funding[7]	10	10	10
Contingency to cover cost overruns and revenue shortfalls[8]	139	76	76
Total	**600**	**600**	**600**
Other Provincial Costs			
Sea-to-Sky Highway upgrade[9]	600	600	775
BC Olympic Secretariat expenses[10]	24	41	41
Cultural legacies[11]	–	20	20
Callaghan Valley Roads[12]	14	20	20
BC Canada House[13]	–	6	6
Squamish and Lil'Wat Cultural Centre[14]	–	6	6
Paralympic Centre in Kimberley[15]	–	4	4
Own the Podium 2010 contribution[16]	–	10	10
Social legacies in Vancouver[17]	10	10	10
Canada Line stop at athletes' village[18]	–	8	8
Provincial Crown sponsorships[19]	–	–	?
Games-related provincial marketing program[20]	?	–	?
Possible Other Games-Related Costs			
Vancouver Convention Centre Expansion Project[21]	–	–	?
Indemnification of Vancouver and Whistler[22]	?	–	?
Whistler Legacies Society[23]	–	–	?
Estimated minimum Provincial Games-related costs	**1,248**	**1,325[b]**	**1,500**

[a] Readers should be aware that these estimates are future-oriented. Actual results achieved will vary from the estimates, and the variations may be material.

[b] Shown for comparative purposes only. The Province maintains that its budget for the Games is $600 million.

[1] ***Olympic Live Sites program***

This item is made up of two separate $20 million programs, one run by the provincial government and the other run by the federal government. The provincial program offers financial support (to a maximum of $330,000 per award) for projects that provide opportunities for communities outside the Vancouver and Whistler areas to participate in the spirit of the Games. Local governments, and

registered non-profit societies whose applications have been endorsed by a local government, are eligible to apply for program funding. As of April 2006, the Province had awarded approximately $10 million in funding under the Olympic Live Sites program.

[2] *2010 Games Operating Trust*

Interest earned on the trust's assets is to be used to cover the pre-Games operating costs of the Whistler Sliding Centre, Whistler Nordic Centre, Whistler Athletes' Centre and the Richmond Speed Skating Oval. After the Games, the trust's assets will be used to cover the post-Games operating costs of the three Whistler facilities. The provincial and federal governments have each contributed $55 million to this trust.

[3] *Provincial costs for medical and security*

For a discussion of these costs refer to the section in our report dealing with the Province's financial undertaking.

[4] *Paralympic operating grant*

In the Multi-Party Agreement of 2002, the Province committed to providing $20 million to the operating costs of the Paralympic Games. VANOC has a total of $60 million in its current budget to be received from government grants for Paralympic operating funds. Split equally this would be $30 million from both of the Federal and Provincial governments, instead of the $20 million currently committed by each. While there is no indication that a further request has been made for funding above the approved $20 million, it appears there is a possibility VANOC could be approaching the Province for additional funding.

[5] *First Nations' legacies*

The Shared Legacies Agreement was signed in 2002 by the Province, the Squamish and Lil'Wat First Nations, and the Bid Corporation. Costs in that agreement include those for:

- the transfer of 300 acres of Crown land in the Callaghan Valley where the nordic events will be held (the 300 acres are to be used by both First Nations after the Games for a variety of possible developments including, but not limited to, a golf course, a lodge facility and a campground);
- a skills and training legacy (funds to enhance training and capacity building); and
- the Squamish and Lil'Wat Naming Recognition Project (the Province has committed funds to help develop a "brand" for both First Nations to use in their joint marketing efforts in the shared territories such as in the Callaghan Valley).

The 300 acres in the Callaghan Valley for the First Nations' legacies has a significant value. Currently the land is valued at $15 million by the Province and $3 million of additional costs are attributed for First Nations' youth development. The First Nations are being given this land without restriction on its potential future use. Because this land will be the site of the Whistler Nordic Centre for the Games, a paved road is being built by the Province. This road, which will allow for future access into this currently remote area, will add significantly to the value of the land.

6 *Whistler legacies*

To secure the Resort Municipality of Whistler's support for the bid for the Games, the Province agreed to a Crown land grant of 300 acres for affordable housing developments (to be selected from a Community Land Bank of Crown lands in the Callaghan Valley, Lower Cheakamus, Kadenwood and Alpine North areas of the Whistler region). Whistler is using this donated land to build the Whistler Olympic and Paralympic Village.

After the Games, 90% of the 251 athlete housing units in the village will be sold as restricted residential units and 10% will be sold as market units. Whistler is also planning on selling seven market lots to help pay for the project. Whistler expects it will be able to raise $4 million from selling the seven market lots and an additional $16 million from selling the planned 25 market housing units.

The Province has estimated $10 million as the cost of the 300 acres of Crown land given to Whistler for building the Olympic Village. This appraisal is based on the current rural RR1 zoning of the land. We agree with the Province's estimate of the cost of this transfer based on its current RR1 zoning. However, Whistler may be able to generate significant revenues from this land in the future through sales of additional market lots—something not considered by the Province as a cost of the transaction. We have not included the $4 million of currently planned lot sales or any of the planned market housing sale proceeds as a cost of the Province in this report.

It is important to note that the value ascribed to Crown land grants does not effect the bottom line of the Province's Public Accounts because there is an offsetting revenue and expense entry when recording the transaction (revenue recognized to write-up the land to its current value, and then an expense recognized for same amount to reflect its disposition). It does, however, represent a cost of the Games and has been correctly reflected as such by the Province.

7 *Sports development funding*

In 2002, the Province committed $10 million to investing in the provincial sports system, athletes, coaches, officials and communities. This funding is being coordinated through a non-profit society, 2010 Legacies Now, created to develop sustainable legacies in sport and recreation, arts, literacy and volunteerism in British Columbia. The total $10 million in funding being committed for sports development is separate from the $10 million contributed by the Province to the Own the Podium 2010 program (see note 16 below).

[8] *Contingency*

The Province has guaranteed to the IOC to cover any financial shortfall of the Games. In its original estimates, the Province established a fund of $139.5 million to address unbudgeted costs that might arise related to its commitments. To date, $8 million of this fund has been approved for spending, leaving the current balance at $131.5 million. We have updated that balance for known increases to the Province's costs (shown in Exhibit 8) and arrive at a current estimate of $76 million remaining. For several reasons, noted earlier in the report, we do not believe this remaining balance is sufficient.

[9] *Sea-to-Sky Highway Upgrade*

As we noted in our first report, each potential Olympic host city is required to identify which new capital projects, outside of those included in the Games budget, are necessary to the successful delivery of the Games. In Vancouver's case, three capital projects, each with significant funding from the Province, were identified: building the Richmond Light Rapid Transit link (Canada Line), expanding the Vancouver Trade and Convention Centre, and upgrading the Sea-to-Sky Highway.

While we concluded in 2003 that the convention centre expansion project and the Canada Line (formerly called the RAV line) were not Olympic costs for the Province, we did include the Sea-to-Sky Highway upgrade project. Our reason for including the latter was that the IOC had commented publicly on its concerns with the form of the highway at the time of the bid for the Games, and the Province and the Bid Corporation had identified the timely completion of the upgrade project as being essential to Vancouver being named the host city. The Province maintains there will be benefits of the highway upgrade that will extend well beyond the Games and contribute to social and economic growth in the area.

The original estimate of $600 million for the Sea-to-Sky Highway upgrade was based on a model that assumed the Ministry of Transportation and Highways would design and build the upgrade project. In 2004, the Province decided to adopt a P3 model for the design, building, financing and operating of a portion of the highway upgrade instead of doing the complete project itself. The estimated total value of the Sea-to-Sky project is $1.983 billion, assuming 2% annual inflation and maximum performance payments. The estimated capital cost in the P3 model is $695 million for roadwork and $80 million for interest costs during construction (total of $775 million). The original $600 million estimate was for baseline improvements only, and did not include the additional highway improvements and accelerated rehabilitation costs (such as new bridges) that are included in the P3 concept or interest costs during construction.

[10] *BC Olympic Secretariat expenses*

These are estimated net expenses to operate the Secretariat's office through 2010, not counting flow-through items such as grants payable to VANOC.

[11] *Cultural legacies*

This is a $20 million arts fund established by the Province to commission new and uniquely Canadian works in time for the 2010 Cultural Olympiad to showcase BC to the world.

[12] *Callaghan Valley Roads*

To access the lands in the Callaghan Valley for the Whistler Nordic Centre venue, a 10-kilometre road is to be constructed by the Province. The cost of this road is estimated at $19 million by the Province. A secondary road is also being constructed to allow access during construction and for security purposes during the Games. The cost of the secondary road is estimated at $1 million by the Province.

[13] *BC Canada House*

This is the cost of the log house used in Torino to showcase British Columbia during the 2006 Olympic Games. The cost of the project was paid out of the Marketing and Promoting core business area of the Ministry of Economic Development. A similar program is being planned for the 2008 Olympic Games in Beijing, China.

[14] *Squamish and Lil'Wat Cultural Centre*

The Province is putting $6 million toward the Squamish and Lil'Wat Cultural Centre. As well, the Province is providing favourable lease terms for the occupancy of the building, which is to be located on a 4-acre parcel of Crown land in Whistler.

[15] *Paralympic Centre in Kimberley*

The Province has granted the town of Kimberley $3.9 million for construction of a state-of-the-art paralympic athletic training centre, to help disabled athletes from around the world train for the 2010 Winter Games.

[16] *Own the Podium 2010*

The Canadian Olympic Committee established a $110 million athletes' funding program designed to help Olympic athletes achieve top three finishes in their respective Olympic sports. The Province has contributed $10 million to date to this program.

[17] *Social legacies in Vancouver*

The Province has committed to making $10 million in improvements in Vancouver's Downtown Eastside. This is part of a social commitment made to the IOC by the provincial and federal governments and the Bid Corporation. To date, the Province has announced $3.25 million in funding to a new non-profit society called the Building Better Opportunities with Business Inner City Society.

[18] *Canada-Line stop at Vancouver Athletes' Village*

In our 2003 report, we excluded the rapid transit link connecting Richmond and the Vancouver airport to downtown from the definition of an Olympic cost. We have, however, decided to include the cost of building a stop on the transit line to the new Vancouver Athletes' Village because we feel this is an incremental cost resulting from the Province's decision to stage the Games in Vancouver. The $7.8 million cost to add this stop is being funded by the Community Development Initiative program of the Ministry of Economic Development.

[19] *Provincial Crown sponsorships*

VANOC has included $90 million of provincial Crown corporation sponsorships in its revenue estimates. The source of these revenues had not been identified at the time we were preparing this report. However, such revenues will become additional costs to the Province if they are over and above regular program funding of those Crown corporations.

An example is the recent BC Lottery Corporation's "Sports Funder" lottery game. VANOC will receive an estimated $15 million in net proceeds from the lottery in return for granting certain marketing rights to the BC Lottery Corporation. This sponsorship could result in an additional cost to the Province if it attracts revenue away from other BC Lottery Corporation products (resulting in less revenue overall flowing into the Consolidated Revenue Fund). We will focus more on these types of sponsorships in our next review.

[20] *Games-related provincial marketing program*

The Province planned to implement a Games-related marketing plan by 2003. However, the IOC restricts advertising of an Olympic Games until the previous Olympic Games are finished. The Province's main marketing effort for the Games will therefore not start until after the Beijing Summer Olympic Games in 2008.

[21] *Vancouver Convention Centre Expansion Project opportunity cost*

We have excluded costs related to the expansion of the Vancouver Trade and Convention Centre from our definition of an Olympic cost. As we noted in our first report, although important questions of financing, ownership and management of the plan were under negotiation at that time of the bid for the Games, the funding was in place. Although the Province had agreed to make the facility available as the main press centre for the Games, the Bid Corporation was not relying on the facility being available for the Games and had in fact developed its budget and plan based on alternative accommodation. Thus, we considered the Vancouver Convention Centre Expansion Project to be independent of the Games—useful if available, but not essential to the delivery of the Games.

Ownership of the expanded facility is currently in public hands. The bid instructions from the IOC included the requirement for a guarantee committing to make available all sports and non-sports venues owned by the public authorities to the OCOG (VANOC) either at no cost or at a rental cost to be pre-approved by the IOC. To date we have not seen evidence of the pre-approval by the IOC of this rental arrangement. Until that pre-approval is obtained, we note that there is a potential cost to the operator of the VCCEP (and thus the Province) of $13 million representing the rent VANOC has agreed to pay.

22 *Indemnification of Vancouver and Whistler*

In 1998 the Province entered into a Participation Agreement with Vancouver and in 2002 entered into a similar agreement with Whistler. Those agreements provide an indemnification by the Province to Vancouver and Whistler for any liability resulting directly from Whistler or Vancouver entering into the Host City Contract. The indemnification extends to costs and liabilities flowing from the Host City Contract where either municipality acted pursuant to instructions from the Province.

23 *Whistler Legacies Society*

The Whistler Sliding Centre, Whistler Nordic Centre and Whistler Athletes' Centre facilities will be owned and operated by the Whistler Legacies Society after the Games. The Province has committed to setting up the Society in such a manner that individual members will not retain liability for the facilities.

The Province has also committed to giving the Society favourable lease terms for the Crown land on which the Whistler Sliding Centre, Whistler Nordic Centre and Whistler Athlete's Centre will be located, to help the Society with the post-Games operating costs of those facilities. The cost of the lease cannot be determined at this time.

Negotiations on amendments to certain key venue agreements are not yet finalized

We recommend that the Province work with VANOC to help get all venue agreements in place as soon as possible; and closely monitor VANOC's progress in managing construction of the venues to ensure they can be delivered on time and on budget and do not result in the transfer of costs to the ultimate guarantor of venue completion—the Province.

Medical and Security Costs not updated

We recommend that the Province update its medical cost estimates, and also update the security cost estimates as soon as the required information is available from the RCMP.

Olympic costs have not yet been defined by the Province

We recommend that the Province:

- establish a comprehensive definition of Olympic-related costs; and
- report regularly to the public on the status of those costs.

Foreign exchange rate risk needs more attention

We recommend that the Province work with VANOC to implement a comprehensive hedging strategy for its foreign-source revenues.

Stronger oversight going forward is required

We recommend that the Province:

- conduct a thorough due diligence review of VANOC's financial information in the future, and that it require VANOC to prepare its future business plans in accordance with the terms of the Multi-Party Agreement; and
- encourage VANOC to make its budget for the Games a public document.

Coordinated marketing effort is needed

We recommend that the Province coordinate its marketing efforts for the Games to make better use of the marketing expertise it already has in place.

Post-Games legacy plans need to be considered

We recommend that, as the Province will ultimately be responsible for the post-Games operations of the Whistler Sliding Centre, Whistler Nordic Centre and Whistler Athletes' Centre, it discuss with VANOC the current design plans for those venues to ensure they incorporate the features envisioned by post-Games business plans.

Response from the Province

Response from the Province

Opening

The Province is pleased to respond to the Office of the Auditor General's report, "Review of Estimates Related to the Province's Commitments for the 2010 Olympic and Paralympic Winter Games".

The Auditor General and the Province share a common commitment to help British Columbians better understand the nature and scope of British Columbia's financial commitments to the 2010 Olympic and Paralympic Winter Games (Games).

The Province supports the spirit of the Auditor General's latest report. By its nature, the Games are a complex undertaking and we value the Auditor General's work to monitor and report on progress, financial obligations, and opportunities to improve planning and management of the Province's activities related to the Games.

The Province takes the Auditor General's findings and suggestions very seriously. In this regard, the Province is pleased the Auditor General will provide additional reports on the Games and it remains committed to working closely with the Auditor General and his staff.

The following discussion is intended to provide additional information to help British Columbians, and the rest of Canada, better understand and assess the context around the Auditor General's suggestions and the Province's response to specific findings and recommendations.

Games Estimates Confirmed

The Province is pleased that the Auditor General confirmed the $600-million estimate for those items included in the Province's direct Games funding envelope.

The Province agrees with the Auditor General on the items classified in the direct provincial funding envelope. While the Auditor General notes that there are a number of potential risks, the Province is carefully managing those risks to ensure the overall Games budget commitment of $600 million remains on track.

At the same time, the Province has been transparent in its intention to pursue other activities to leverage additional economic, social and cultural benefits from the opportunity created by hosting the Games.

It is important for readers to understand that activities and commitments made by the Province — whether or not they are Games-related, regardless of definition — are all managed, examined by the Auditor General, and disclosed in the Province's Budgets, Estimates, Public Accounts and other reports.

As the Auditor General has repeatedly pointed out in the past, most recently with the 2005/06 Public Accounts, British Columbia is a leader in Canada with respect to the completeness and timeliness of its provincial public sector budgeting and financial reporting.

Provincial Definition of Games Costs

Leading up to the Games Bid in 2002, the Province established a core funding envelope of $600 million as its direct contribution towards staging the Games, including venue construction, venue legacy endowment, medical, security, the Paralympic Games, and legacies for First Nations, sports, and municipalities. The envelope also included a significant contingency allocation for expected venue construction price escalation and to help manage other Games risks.

The items in the funding envelope represent the Province's definition of its direct Games costs. While there are other cost items that the Auditor General attributed to the Games, they are not directly related to staging the Games or funded within the Province's direct Games funding envelope.

The issue raised by the Auditor General on whether various indirect or Games-related activities should or should not be counted as Games costs is really an arbitrary question subject to judgement. There are many activities that may occur in the operations of the provincial government and its partners in response to Games opportunities; however, it is a matter of judgement as to whether these activities would have occurred with or without the Games.

The Province has clearly stated its definition of Games costs and, since the awarding of the Games, has continued to report on this basis in as complete and transparent a manner as possible. An update of the provincial Games funding commitments that comprise that definition is shown in Table 1.12 on page 27 of the February 2006 Budget and Fiscal Plan.

Effective Management and Oversight

The Auditor General notes that there are still many risks inherent in the venue capital cost estimates and in VANOC's operating revenue and expense estimates that could lead to future cost pressures for the Province. The Auditor General suggests that a very strong due diligence process is needed to ensure the Games are delivered on time and on budget.

The Province agrees with the Auditor General and has already introduced or is participating in a number of initiatives, several of which were noted in the report:

- *The Province has representation on the VANOC board of directors, and this representative co-chairs the VANOC Finance Committee.*

- *The Province established the BC Olympic Games Secretariat to leverage additional benefits from hosting the Games and provide oversight on staging the Games and the Province's direct funding envelope. The Secretariat attends and observes all VANOC Board meetings, Finance Committee meetings, and Audit Committee meetings.*
- *Through the BC Secretariat, the Province is working with Games partners to help ensure Games venues are not future burdens but rather positive and sustainable legacies for athletes and communities.*
- *The Province retained a construction consultant to review the capital construction budgeting and management systems in VANOC and to make recommendations for improvements where appropriate.*
- *The Province's Treasury Board maintains strict control over the Province's Games contingency allocation and is implementing specific oversight and control measures for Games-related activities undertaken by ministries and Crown agencies.*
- *The Risk Management Branch in the Ministry of Finance is assisting VANOC in developing their risk management program.*
- *VANOC is staffing its operational and construction planning and management area with competent people and is developing risk management plans to mitigate operational and construction pressures.*
- *Scope changes, such as venue relocations and redesigns, were implemented to help contain costs for venue construction.*
- *To minimize cost exposure and completions delays, Games partners are using fixed price contracts with milestone reporting and penalty provisions.*
- *As noted by the Auditor General, the terms of the Participation Agreements with Vancouver and Whistler require prior approval from the Province before they can incur any costs that may be covered by the Province.*
- *The Province continues to discuss venue agreements and proposals from ministries and Crown corporations, and to follow up on suggestions that the Auditor General may have regarding Games oversight and management, with the staff of that office.*

Recent events serve to highlight how the Province is continuously looking to improve its management and oversight of Games costs. As a result of significant construction cost escalation due to British Columbia's strong economy, VANOC requested $110 million of additional funding for venue construction from the two senior governments. As noted by the Auditor General, the Province performed its

due diligence. It conducted a careful review of VANOC's capital budgeting and management system before it agreed to fund its share of the request from the Province's overall Games contingency allocation.

As a condition of the additional funding approval for venue construction, the Province required VANOC to enter into a Performance and Accountability Agreement that provides further assurance that the Games venues will be completed on time and on budget.

Under this new agreement, VANOC will establish a substantial centralized construction contingency allocation from within the venue capital construction budget it administers, subject to close oversight of the VANOC board of directors and the Province. In addition, VANOC will undertake a careful review of the recommendations made by the consultant retained by the Province and make appropriate changes to its capital budgeting and management system.

Given all the activities and safeguards listed above, the Province has accomplished significant actions to manage risks associated with its Games commitments. Indeed, it is these oversight activities that support the Province's current assessment that its remaining $76 million Games contingency allocation is reasonable.

Responsibility for the Games

The Games represent a partnership among the Olympic movement, the federal, provincial and local governments, First Nations and the private sector. All partners have different but related roles and responsibilities in staging the Games, managing and reporting on costs, delivering on commitments, and leveraging the benefits and legacies made possible from hosting the Games.

The Province agrees that all partners share a collective responsibility to make the Games a success and should provide the highest level of accountability for their respective activities. However, this will be difficult to achieve if responsibilities are unclear or confused between Games partners.

To illustrate, the Auditor General identified nearly $400 million in additional local-government sponsored investments and suggests that these costs should be counted and reported as a direct cost to the Games venue capital budget and that the Province is indirectly responsible for ensuring the success of these projects.

Other Games partner jurisdictions, such as the Cities of Vancouver and Richmond, the Resort Municipality of Whistler, Canada, and First Nations are not part of the Province's reporting entity. In this report, the Auditor General confirms that VANOC is not part of the Province's reporting entity under Generally Accepted Accounting Principles.

Response from the Province

The Province is concerned about the potential confusion over accountabilities if it were to report on activities that British Columbia does not fund and that are not part of its financial commitment to stage the Games, nor within its realm of responsibility.

Some partner jurisdictions have taken advantage of the Games opportunity to leverage significant investments in other public facilities for the long-term benefit of their own communities well after the Games.

In the City of Richmond, VANOC is contributing $61 million towards the construction of a speed skating oval. However, the City chose to invest a further $117 million to leverage the project and create a new waterfront plaza, park and parkade. While these enhancements create important benefits for the citizens of Richmond, they were not required to meet the narrower needs of the Olympic speed skating events.

Richmond is funding its own investment from its own sources and is accountable to its own citizens for success in that investment, including the reporting of costs and management of associated risks.

The Resort Municipality of Whistler and the City of Vancouver each committed to build affordable employee or social housing projects that will benefit their communities well past the Games. While the Province and VANOC are contributing $84 million in recognition of the benefit that these facilities will provide as temporary Games athletes villages, an additional $260 million is being invested by those communities to be fully paid for through sales of social and market housing after the Games — not from general taxpayers.

Vancouver and Whistler are accountable to their own citizens for the ultimate success of those investments, including the reporting of costs and management of associated risks.

This is not just about appropriately linking accountability with responsibility; it also has implications on how we can best manage risks to taxpayers. Risks are best managed by those respective parties who are in the best position to influence and mitigate those risks. Leading those parties to believe that they will not bear the consequences diminishes the incentive to manage risks.

We agree with the Auditor General where he specifically notes that the Province's guarantee to cover any financial shortfall of VANOC, from a clear legal perspective, extends only to the International Olympic Committee. Yet, by the Auditor General extending the argument that the Province is morally obligated to cover any and all shortfalls of the other partners involved, it serves to partially absolve these other parties from the obligations they have each respectively assumed.

Response from the Province

Benefits from the Games

The Games will be a defining moment in British Columbia's history. The fierce international competition to be named an Olympic host city highlights the fact that the Games represent an important opportunity to generate a wide range of lasting social and economic benefits.

Therefore, while the Auditor General points out the Games will place significant demand on British Columbia's resources, the Province believes, like others, that some or all of the costs of staging and hosting the Games will likely be offset by the benefits so created, though not yet reviewed by the Auditor General at this time.

Games benefits are recognized within the financial and economic advisory communities, and were factors considered in the recent upgrade to the Province' credit rating. The Auditor General has acknowledged that he has not yet received updated information to review or include in his findings regarding the potential new revenues that will help offset Games costs through additional economic activity before, during and after the Games.

For example, today and in the future, as venue development contributes to construction activity, the benefits return through taxes and a variety of other revenues to all levels of government. The added downstream benefits of global recognition of British Columbia, its products and economic opportunities through marketing and investment strategies will create incremental revenues that would not otherwise have existed.

The Games will continue to generate new jobs through construction of venues and related facilities, planning and staging the Games, and new permanent jobs generated by sustainable legacies.

For First Nations, employment participation in the lead up to and the hosting of the Games, together with the opportunities created by the First Nations legacies and Crown transfers of land, will provide added economic activity and resulting revenues to their communities.

The Province agrees it is worthwhile to update the economic benefits analysis that was prepared in 2002 and to include the Province's marketing plan in that analysis so that the Auditor General can begin to take the overall benefits into account when preparing his reports.

The Auditor General makes clear the need for strong marketing efforts if the Province hopes to achieve the $4 billion of economic benefits forecast in 2002. The government agrees with the Auditor General and is taking actions with its partners to maximize the Games benefits.

Response from the Province

The BC Secretariat is currently finalizing the Province's agreement with VANOC for the use of 2010 Olympic marks for its programs. In the interim, the Province has received approval on several occasions to use 2010 marks for specific uses and programs.

The Province also agrees with the Auditor General to seek outside expertise when it updates its economic benefits analysis.

It is important to recognize that, just as there are indirect costs to the Games, there are also indirect benefits that are already being felt. For example, being awarded the Games provided a significant boost to public and business confidence in the future of British Columbia's economy. In addition to other economic factors, that confidence has played an important role in the growth that has seen British Columbia lead Canada in key indicators such as job creation and record low unemployment rates across the province. Such indirect benefits and their impact are difficult to quantify but are no less valuable and will leave an additional legacy for the province well beyond 2010.

Effective Hedging

The Auditor General suggests that at the time the Games were awarded, the Province should have implemented a hedging strategy to protect some of the expected Games revenues from changes in exchange rates, and that the Province now work with VANOC to implement a comprehensive hedging strategy for its foreign-source revenues.

VANOC has already implemented a hedging strategy in accordance with its own hedging policy approved by the VANOC Board of Directors.

In 2003, the Vancouver 2010 Bid Corporation (now VANOC) was told by the IOC that it could expect to receive approximately US$400 million in revenues from broadcast rights and other sources. However, the IOC did not confirm the actual currency, amount or timing of the revenues until 2005. These factors are critical in deciding whether to undertake a hedging arrangement, as well as the long-term economic outlook for US exchange rates.

In 2003, there were also conflicting views about where US exchange rates were headed. Some forecasters thought that exchange rates would strengthen while others thought they would weaken or remain flat. In fact, forecasts in the 2003 Budget indicated an exchange rate of $0.645. To everyone's surprise, the current rates we are now experiencing are significantly higher than anyone thought at that time, with rates now at $0.882.

VANOC's view, on the recommendation of its advisors, was that it would have been imprudent to hedge for unknown amounts at a time of conflicting exchange rate forecasts.

While the Auditor General has suggested that British Columbia should have stepped in, the Province does not agree and believes that:

- *Hedging is appropriate for revenues belonging to the entity undertaking the contracts. Broadcast and international sponsorships revenues provided by the IOC belong to VANOC, not the Province.*
- *As noted by the Auditor General in this report, VANOC is independent of provincial control. The decision on whether or not to hedge was a decision of VANOC's Board of Directors and not the Province.*
- *Had the Province chosen to take that risk and hedge VANOC's revenues without an agreement with VANOC, and exchange rates turned out to be different than assumed, VANOC would have no obligation to honour the hedges and the Province would have had to absorb the loss – an extra cost to taxpayers.*

Although the Auditor General has had the benefit of now looking back with hindsight, the reality is that due to uncertainties at that time, it would have been imprudent for the Province to commit taxpayers to this kind of exposure.

Sea-to-Sky

The Province agrees with the Auditor General's confirmation that the total estimated outlay for the Sea-to-Sky highway (S2S) over 25 years is $1.983 billion, which assumes 2 per cent inflation per year and maximum performance payments.

The amounts to be paid are fixed in the agreement and represent both capital construction and operating activities. Consequently, total costs and the value for money benefits of the P3 arrangement have not changed since the agreement was reached and examined by the Auditor General in his previous value for money report on the S2S.

We agree with the Auditor General that significant additional highway improvements will be received as a result of the S2S agreement, well beyond the baseline highway improvements originally estimated. These value for money benefits include additional road and safety improvements and anticipated user benefits that flow from strong service delivery provisions that help ensure reliability of road use and the avoidance of delays or lane closures.

Response from the Province

Based on the concluded P3 agreement, the Auditor General's staff have confirmed the appropriate accounting treatment for the total S2S project. However, this has not affected in any way the overall costs for the S2S since the Auditor General's last review of the S2S in December 2005.

The presentation of the estimated capital costs for the S2S accounts for most of the Auditor General's assessment of increased provincial costs attributable to the Games since the last report. However, the Province's Games budget remains the same and apart from the S2S, we are pleased to note that the Auditor General confirms the Province's estimates for those items he attributes to the Games.

Conclusion

The Auditor General's report reflects the complexity of undertaking the Games, and the Province appreciates the work done to help British Columbians better understand the nature of such an important undertaking.

The report effectively highlights several key issues. First, it clearly confirms the Province's estimate of costs for those items within the Province's direct funding envelope for the Games. Spending for those items remains within that original envelope and is on track to continue to do so.

Second, the Auditor General's report reiterates the importance of strong oversight on the management of the Province's interests in the Games. The Province agrees with and is meeting that requirement and is, in fact, implementing further actions to provide even more effective management in the interests of British Columbians.

Third, the Auditor General's report underscores the challenges that result from the multitude of partners involved in the Games. While the Province and all its partners share a desire and responsibility to ensure the success of the Games on every level, it is important that each partner be accountable for the risks they may choose to incur by expanding the scope of projects beyond that necessary for staging the Games themselves.

Response from the Province

Ultimately, the report shows the Province is managing its responsibilities to the Games and to taxpayers effectively. It is important to remember that the investments being made in preparation for 2010 will yield benefits well beyond the relatively short period of the Games themselves — indeed, the benefits to the economy have already begun to take effect. The estimated $4-billion impact of the Games will benefit the entire province. Venues and other capital projects will provide a lasting social and economic legacy in the communities involved. The increased international profile resulting from the Games will generate enduring tourism, trade and investment benefits well into the future if action is taken to capitalize on that potential. The Province is committed to ensuring those benefits are fully realized and that they remain the true legacy of this once in a lifetime opportunity for British Columbia.

Hon. Colin Hansen
Minister of Economic Development
and Minister Responsible for the Olympics

Appendix

Appendix A: Summary of our reports issued in 2006/07

Report 1 - April 2006

Strengthening Public Accountability: A Journey on a Road that Never Ends

Report 2 - September 2006

The 2010 Olympic and Paralympic Winter Games: A Review of Estimates Related to the Province's Commitments

Each of these reports can be accessed through our website http://www.bcauditor.com or requested in print from our office.